



# **Solid Clouds ehf**

Financial Statements 2020

Reg. no: 600913-2550  
Eiðistorgi 13-15  
170 Seltjarnarnes



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# Managing Director and Board of Directors' Report

Solid Clouds ehf. was founded in 2013. Its purpose is information technology, software development and creation and marketing of computer games.

This is the Company's first Financial Statements prepared in accordance with IFRS (International Financial Reporting Standards). Amounts are in thousands of Icelandic krónur. For further information on changes from the preparation of Financial Statements in accordance with the Icelandic Financial Statement Act and Regulation on the Presentation and Contents of Financial Statements and Consolidated Group Statements, to the Financial Statements made in accordance with International Financial Reporting Standards, we refer to the notes to the Financial Statements.

Net income for the year 2020 amounted to ISK 9.644 thousand. Total assets were ISK 658.157 thousand at year end 2020 and Stockholder's equity amounted to ISK 633.819 thousand at the same time. Employees during the year were 17.

Number of shareholders at the end of the year 2020 are 167 but were 158 at the beginning of the year. The following are the ten largest shareholders at year-end 2020:

Stefán Gunnarsson .....	15,61%
Kjölur fjárfestingarfélag ehf .....	10,00%
Sigurður Arnljótsson .....	6,21%
Stefán Þór Björnsson .....	5,11%
Tómas Sigurðsson .....	3,13%
Daniel Sigurðsson .....	2,54%
S9 ehf. ....	2,27%
Silfurberg ehf. ....	1,95%
Brimgarðar ehf. ....	1,71%
Karl J. Karlsson .....	1,69%
Other shareholders (157) .....	49,78%

Payment of dividends are not authorized in the year 2021, but the Company's Board of Directors refers to the Financial Statements regarding allocation of net earnings for the year and other changes in equity.

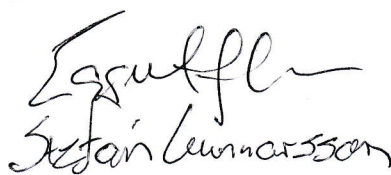
The year 2020 has been marked by Covid-19 and the Company's management has sought to ensure the safety and well-being of employees through measures to reduce their risk of infection. It is the opinion of the management that Covid-19 has had a disruptive effect on software development due to the government's social distancing regulations. The Company has worked to create good working conditions for all employees with equality and respect in mind. The Company's Board of Directors is authorized to enter into stock option agreements with employees so that their interests coincide as well as possible with the interests of shareholders.

In early 2020, Solid Clouds ehf announced that the beta version of Starborne would be tested in the spring. In April, the release went live with good reception and the Company has received considerable income from testing the game. The Company is currently working on a new version of Starborne that will place more emphasis on players being able to play at their own pace and buy more in the game to further increase players' spending and presence in the game. A new version of the game is planned at year-end 2021.

The Icelandic government has increased the incentive for innovation in the country through a number of measures that have supported the Company's operations. Solid Clouds ehf is currently working on further financing to strengthen the Company's operations for the future and for continued growth.

The Board of Directors and the Managing Director of Solid Clouds ehf hereby confirm the Financial Statements for the year ended December 31, 2020 by means of their signatures.

Reykjavík, 11th of May 2021

  
Stefán Gunnarsson

  
Sigríður Magnúsdóttir

# Independent Auditor's Report

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To the Board of Directors and Shareholders of Solid Clouds ehf.

## **Opinion**

We have audited the accompanying Financial Statements of Solid Clouds ehf, which comprise the Balance Sheet at 31 December 2020, the Income Statement, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the Financial Statements give a true and fair view of the financial position of Solid Clouds ehf as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Responsibilities of the Board of Directors and Managing Director for the Financial Statements**

The Board of Directors and Managing Director are responsible for the preparation and fair presentation of the Financial Statements in accordance with IFRSs as adopted by the European Union and for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Board of Directors and CEO are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board of Directors and Managing Director are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## Independent Auditor's Report, contd.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

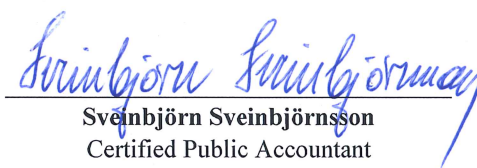
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with The Board of Directors and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors and Managing Director accompanying the Financial Statements includes the information required by the Financial Statements Act if not disclosed elsewhere in the Financial Statements.

Reykjavík, 11th of May 2021

  
Sveinbjörn Sveinbjörnsson  
Certified Public Accountant

  
Gæðaðendurskoðun slf  
Bildshöfða 14, 110 Reykjavík



# Income Statement for the year 2020

	Notes	2020	2019
<b>Operating income</b>			
Operating revenues .....	4	63.769	21.437
Grants .....		56.676	64.192
Capitalized development costs .....	6	( 51.008)	( 85.628)
		<u>69.436</u>	<u>0</u>
<b>Operating expenses</b>			
Development cost .....		82.015	49.939
Salaries and related expenditures .....	5	137.918	130.015
Operating expenses .....		68.952	62.520
Capitalized development costs .....	6	( 228.418)	( 210.443)
		<u>60.467</u>	<u>32.030</u>
Operating profit (loss) before depreciation and financial inc. and expenses .....		<u>8.969</u>	<u>( 32.030)</u>
Depreciation of development costs .....	6	( 27.050)	0
Depreciation of right-of use assets .....	7	( 5.871)	( 5.758)
Operating loss before financial income and expenses .....		<u>( 23.952)</u>	<u>( 37.788)</u>
<b>Financial income and (expenses)</b>			
Interest revenues .....		448	2.564
Interest expenses .....		( 1.034)	( 1.190)
Currency exchange difference .....		1.865	( 3)
		<u>1.279</u>	<u>1.371</u>
Operating loss before income tax .....		<u>( 22.673)</u>	<u>( 36.417)</u>
Income tax .....	8	<u>32.318</u>	<u>0</u>
<b>Net profit (loss) for the year .....</b>		<u><u>9.644</u></u>	<u><u>( 36.417)</u></u>



## Balance Sheet December 31, 2020

	Notes	31.12.2020	31.12.2019	1.1.2019
<b>Assets</b>				
Development cost .....	6	545.677	395.317	270.502
Right-of use assets .....	7	13.428	18.795	24.062
Income tax asset .....	8	32.318	0	0
		<u>591.423</u>	<u>414.112</u>	<u>294.564</u>
Non-current assets				
Receivables .....		1.305	0	3.223
Other receivables .....		6.466	28.723	2.655
Cash and cash equivalents .....		58.963	113.737	95.778
		<u>66.734</u>	<u>142.460</u>	<u>101.657</u>
Current assets				
		<u>66.734</u>	<u>142.460</u>	<u>101.657</u>
<b>Total assets</b>				
		<u><u>658.157</u></u>	<u><u>556.573</u></u>	<u><u>396.221</u></u>
<b>Equity</b>				
Share capital .....		2.108	1.948	1.628
Share premium .....		733.299	634.259	436.179
Restricted equity .....		545.677	395.317	270.502
Share based payments .....		4.689	2.035	1.476
Accumulated deficit .....		( 651.954)	( 511.239)	( 350.007)
		<u>633.819</u>	<u>522.321</u>	<u>359.778</u>
Total stockholders equity				
	9	<u>633.819</u>	<u>522.321</u>	<u>359.778</u>
<b>Non-current liabilities</b>				
Lease liabilities .....	7	8.942	13.525	18.737
		<u>8.942</u>	<u>13.525</u>	<u>18.737</u>
Non-current liabilities				
		<u>8.942</u>	<u>13.525</u>	<u>18.737</u>
<b>Liabilities</b>				
Lease liabilities .....	7	5.088	5.703	5.325
Accounts payable .....		405	1.994	0
Prepaid income .....		395	0	0
Liabilities to related parties .....		200	214	0
Other payables .....		9.309	12.815	12.380
		<u>15.396</u>	<u>20.727</u>	<u>17.705</u>
Current liabilities				
		<u>15.396</u>	<u>20.727</u>	<u>17.705</u>
Total liabilities				
		<u>24.338</u>	<u>34.252</u>	<u>36.442</u>
<b>Total equity and liabilities</b>				
		<u><u>658.157</u></u>	<u><u>556.573</u></u>	<u><u>396.221</u></u>

# Statement of Changes in Equity December 31, 2020

	Share capital	Share premium	Restricted equity	Share-based payments	Accumul. deficit	Total Equity
<b>Changes in 2019</b>						
Shareholders'						
equity December 31, 2018 .....	1.628	436.179	271.565	0	( 348.441)	360.932
Effects of IFRS adoption .....			( 1.063)	1.476	( 1.566)	( 1.153)
Equity 1 January 2019 .....	1.628	436.179	270.502	1.476	( 350.007)	359.778
Paid-in capital .....	320	198.080				198.400
Loss for the year .....					( 36.417)	( 36.417)
Restricted equity .....			124.815		( 124.815)	0
Share based payments .....				559		559
Equity December 31, 2019 .....	1.948	634.259	395.317	2.035	( 511.239)	522.321
<b>Changes in 2020</b>						
Shareholders'						
equity December 31, 2019 .....	1.948	634.259	395.317	2.035	( 511.239)	522.321
Paid-in capital .....	160	99.040				99.200
Profit for the year .....					9.644	9.644
Restricted equity .....			150.360		( 150.360)	0
Share based payments .....				2.654		2.654
Equity December 31, 2020 .....	2.108	733.299	545.677	4.689	( 651.954)	633.819

See further information about equity in note 9.

# Statement of Cash Flows for the year 2020

	Notes	2020	2019
<b>Operating activities</b>			
Operating loss before financial income and expenses and income tax .....		( 23.952)	( 37.788)
Adjustments to reconcile results from operation to operating activities:			
Depreciation of development costs .....	6	27.050	0
Depreciation of right-of-use assets .....	7	5.871	5.758
Share based payments expensed .....		2.654	593
		<u>11.623</u>	<u>( 31.437)</u>
Working capital provided by (used in) operating activities		11.623	( 31.437)
Operating assets, changes .....		20.952	( 22.845)
Operating liabilities, changes .....		( 4.701)	2.782
		<u>27.874</u>	<u>( 51.500)</u>
Cash provided by (used in) operating activities		27.874	( 51.500)
Interest revenues received .....		448	2.564
Interest expenses paid .....		( 1.034)	( 1.190)
		<u>27.288</u>	<u>( 50.126)</u>
Net cash provided by (used in) operating activities		27.288	( 50.126)
<b>Investment activities</b>			
Capitalized development cost .....	6	( 177.410)	( 124.815)
		<u>( 177.410)</u>	<u>( 124.815)</u>
Investment activities		( 177.410)	( 124.815)
<b>Financing activities</b>			
Paid-in share capital .....		99.200	198.400
Instalments of lease liabilities .....		( 5.703)	( 5.325)
Other short-term liabilities, change .....		( 14)	( 173)
		<u>93.483</u>	<u>192.902</u>
Financing activities		93.483	192.902
(Decrease) increase of cash and cash equivalents .....		( 56.639)	17.961
Cash and cash equivalents at beginning of year .....		113.737	95.778
Translation difference of cash and cash equivalents .....		1.865	( 3)
		<u>58.963</u>	<u>113.737</u>
Cash and cash equivalents at end of year .....		58.963	113.737

# Notes to the Financial Statements

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## 1. Reporting entity

Solid Clouds ehf. (the "Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is Eiðistorg 17, Seltjarnarnes, Iceland. The main purpose of the Company is information technology, software development and creation and marketing of computer games.

## 2. Basis of preparation

### a. *Statement of compliance with International Financial Reporting Standards*

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

These are the Company's first Financial Statements that are prepared according to IFRS and therefore IFRS 1 "First time adoption of IFRS" has been applied.

The effects of implementing IFRS on the comprehensive income, financial position and cash flows are described in note 12.

The Financial Statements were approved by the Board of Directors of Solid Clouds ehf. on May, 11th, 2021.

### b. *Basis of measurement*

The Financial Statements are prepared on historical cost basis.

### c. *Presentation and functional currency*

The Financial Statements are presented in Icelandic krona (ISK), which is the Company's functional currency. All financial information presented in ISK has been rounded to the nearest thousand except when otherwise indicated.

### d. *Use of estimates and judgements*

The preparation of Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The determination of fair value is based on preconditions, which are dependent on the judgment of management on future events. Actual results can be different from these estimates.

### e. *Going concern*

COVID-19's management and managers actions have focused on ensuring the safety and well-being of employees through measures to reduce their risk of infection. In order to continue uninterrupted software development, the Company needs further financing. Failure to do so may lead to a reduction in software development.

Management has assessed the Company's going concern. It is their opinion that its continued operations are secured and that the Company is well equipped to meet its obligations in the foreseeable future.

The Financial Statements are therefore presented based on continuing operations.

3. **Significant accounting policies**

a. *Foreign currencies*

Transactions in foreign currencies are translated to Icelandic krona at the foreign exchange rate at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated to Icelandic krona at the foreign exchange rate at the reporting date.

b. *Revenue recognition*

Solid Clouds ehf has income from the sale of virtual goods in the computer games that the Company has released. Revenue from virtual goods is recorded when players have used the products in question. The Company estimates the amount of unused virtual goods on the reporting date and enters it as prepaid income. Historically, players have mostly used products within a month of purchasing the products in question, and this is taken into account in the estimation.

c. *Government grants*

Government grants related to development costs have been entered to reduce capitalized development costs to offset them against the costs they are intended to cover.

There are no unfulfilled conditions or uncertainties associated with these grants at year-end 2020. Reimbursement for research and development costs for the year 2020 will be paid in October or November 2021. The reimbursement has not been recognized as income.

d. *Employee benefits*

Short-term employee benefits are expensed as the related service is provided but subsequently capitalized as development costs. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company pays contributions to employees on an independent basis for contributions related to pension funds. The company bears no responsibility for the obligations of the funds.

See note 9d regarding stock option agreements but the Company has entered into stock option agreements with employees so that their interests coincide as closely as possible with the interests of shareholders.

e. *Interest income*

Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

f. *Income tax*

Income tax is recognized in the Income Statement except when it relates to items that are recognized directly in equity, in which case the income tax is recognized in equity.

Deferred income tax is recognized for temporary differences between the carrying amounts of assets and liabilities in the Financial Statements, on the one hand, and their tax value, on the other.

The calculation of deferred tax is based on the tax rate that is expected to take effect when temporary differences will be reversed, based on current law on the settlement date. Calculated income tax assets and income tax liabilities are equalized when there is a legal right to equalize income tax for payment and tax assets.

Calculated income tax asset are only recognized to the extent that it is considered probable that taxable profits will be available in the future against which the asset can be utilized. The calculated income tax asset is valued on each settlement date and reduced to the extent that it is considered probable that it will not be utilized.

g. *Intangible assets*

Intangible assets are only capitalized when it is probable that the economic benefits associated with the asset will benefit the Company and the cost value of the asset can be estimated reliably. The Company's intangible assets are developed software and are recognized at cost less depreciation. Depreciation is recognized in a systematic manner over the estimated useful life of the asset after it starts generating revenue and is based on the 10-year useful life of the asset. Depreciation of development costs is entered for the first time in the year 2020 and the depreciation relates to the capitalization of development costs in the years 2016 to 2018. Estimated useful lives and depreciation methods are reassessed at the end of each year.

Research costs are charged when incurred. Development costs are capitalized only if all of the following conditions are met:

- that the Company can complete the development of the intangible asset so that it is ready for use or in a salable condition,
- that the Company intends to complete the development of the property and use or sell it,
- that the Company demonstrates its ability to sell the property,
- that the Company demonstrates that the property will generate income in the future,
- that the Company has sufficient technology and resources to complete development and sales,
- that the Company has the capacity to estimate development expenses reliably.

Capitalization of development costs is only when all of the above conditions are met, otherwise it is expensed when incurred. After capitalization, development costs are estimated at cost less accumulated depreciation.

It is the conclusion of the management that all the above conditions are met.

h. *Right-of use assets and lease liabilities*

The International Financial Reporting Standard IFRS 16 Leases was issued in January 2016. The standard means that almost all leases are recognized in the lessee's Balance Sheet because the treatment of operating and financing leases is no longer different. Under the new standard, property (right-of use assets) and the debt due to the payment of rent, are entered in the Balance Sheet.

At commencement of a lease contract a lessee recognizes a right-of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The right-of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of use asset is posted among fixed assets in the Financial Statements and are subsequently depreciated using the straight line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's internal rate of return.

i. *Financial assets*

The Company's financial assets are trade receivables and other receivables. The Company intends to keep the receivables until they are due. Contractual payments on due dates consist only of installments of principal. Information about expected loan losses on financial assets can be found in Note 10b.

The Company delists financial assets when the contractual right to future cash flows from the financial asset no longer exists or when the risks and benefits of the financial asset are transferred to another party.

j. *Financial liabilities and equity instruments*

An equity instrument is any type of agreement that involves the remaining interests in the Company's assets after all liabilities have been deducted. Equity instruments issued by the Company are recorded at cost less the direct cost of issuing them.

Financial liabilities are estimated at amortized cost based on effective interest rates. The Company only writes off financial liabilities when the obligation due to them no longer exists. Gains or losses due to deregistration are recognized in the Income Statement.

## Notes continuing:

### 4. Geographical distribution of the Company's income

The following table shows the distribution of revenue from the sale of the game Starborne in different countries in the year 2020:

	Sale in ISK thousands	Percentage of sale
United States of America (USA) .....	33.007	51,76%
Canada .....	4.445	6,97%
United Kingdom .....	4.387	6,88%
Germany .....	3.475	5,45%
Australia .....	2.748	4,31%
France .....	1.530	2,40%
Russia .....	1.256	1,97%
Sweden .....	1.052	1,65%
Netherlands .....	931	1,46%
Denmark .....	701	1,10%
South-Africa .....	638	1,00%
Hungary .....	599	0,94%
China .....	440	0,69%
Brazil .....	440	0,69%
Belgium .....	389	0,61%
73 other countries .....	7.729	12,12%
Revenues from the game .....	63.769	100,00%

### 5. Salaries and salary related expenditures

Salaries and salary related expenditures are specified as follows:

	2020	2019
Salaries .....	114.666	106.924
Salary related expenditures .....	23.253	23.090
Salaries and salary related expenditures in the Income Statement .....	137.918	130.015
Capitalized salaries and salary related expenditures as development cost .....	( 121.592)	( 130.015)
Expensed salaries and salary related expenditures .....	16.326	0
Average number of full time equivalent employees .....	17	14

The total salaries of the Board, and managing directors of Solid Clouds amounted to a total of ISK 20,7 million in the year 2020 (2019: ISK 20,7 million). Pension fund payments amounted to ISK 2,4 million during the year 2020 (2019: ISK 2,4 million).

### 6. Intangible assets

The Company's development costs are based on the Company's production of a multiplayer video game technology framework that can be used to make multiplayer games for the international market. The production of such games is generally complex, time consuming and expensive. As stated in Note 3g, management estimates that the capitalization of development costs meet all IAS 38 capitalization requirements.

Depreciation of the development cost is calculated over the estimated life of the project, which is ten years. Development cost and depreciation are specified as follows:

	2020	2019
Book value 1.1. ....	395.317	271.565
Correction with the implementation of IFRS .....	0	( 1.063)
Corrected book value 1.1. ....	395.317	270.502
Capitalized development cost .....	177.410	124.815
Depreciation of development cost .....	( 27.050)	0
Book value 31.12. ....	545.677	395.317

## Notes continuing:

### 7. Leases

The Balance Sheet shows the following amounts relating to leases:

<i>Right-of use assets</i>	2020	2019
Balance at the beginning of the year .....	18.795	24.062
Increase in right-of-use assets due to revaluation of lease liabilities .....	504	491
Depreciation during the year .....	( 5.871)	( 5.758)
Balance at the end of the year .....	13.428	18.795
<i>Lease liabilities</i>		
Non-current .....	8.942	13.525
Current .....	5.088	5.703
Total lease liabilities .....	14.029	19.228

The Income Statement shows the following amounts relating to leases:	2020	2019
Depreciation of right-of-use assets (included in depreciation) .....	5.871	5.758
Interest expense (included in interest expenses) .....	815	1.069
Expense in short-term leases (included in operating expenses) .....	1.524	824
Total expense in the Income Statement for leases .....	8.210	7.651

The Company paid ISK 7,9 million in rent in the year 2020 (2019: ISK 7,3 million).

### 8. Income tax asset

Income tax asset is specified as follows:	2020
Income tax in the Income Statement .....	32.318
Income tax asset in the Balance Sheet .....	32.318

Calculated income tax asset is divided to the following items:

Accumulated tax loss .....	141.453
Development cost .....	( 109.135)
Income tax asset in the Balance Sheet .....	32.318

The tax loss at the end of 2020, which may be carried forward according to Icelandic tax law, amounts to ISK 707 million. Accumulated tax losses that are not used against profits within ten years of their formation are canceled. Accumulated tax loss is usable as follows:

Tax loss for the year 2013, useable until the year 2023 .....	967
Tax loss for the year 2015, useable until the year 2025 .....	52.527
Tax loss for the year 2016, useable until the year 2026 .....	68.585
Tax loss for the year 2017, useable until the year 2027 .....	106.974
Tax loss for the year 2018, useable until the year 2028 .....	109.360
Tax loss for the year 2019, useable until the year 2029 .....	160.170
Tax loss for the year 2020, useable until the year 2030 .....	208.682
Total accumulated tax loss .....	707.265



## Notes continuing:

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### 9. Equity

#### a. *Share capital*

The Company's share capital, according to its Article of Association amounts to ISK 2,1 million. One vote is attached to each ISK one share in the Company.

#### b. *Share premium*

The Company's share premium shows the premium paid for paid-in share capital during the year.

#### c. *Restricted equity*

According to Icelandic laws and regulations, companies that capitalize development cost shall recognize the same amount as a separate item in equity which is not permitted to allocate dividends from. That item shall be settled in proportion to the amount of annual depreciation of capitalized development costs. The item should be dissolved if the asset is sold, discontinued or fully depreciated.

#### d. *Stock option agreement*

On 31 December 2020, the Company's employees and contractors are entitled to stock option agreements for 39,555 shares in the Company where the acquisition of rights is equal over two to four years. The stock option agreements were granted in the years 2015 to 2020 and expire in the period June 2021 to January 2024. The average price of stock options in the agreements is ISK 410. The Board of Directors has approved the issue of stock options in the total amount of ISK 92,000 so at year-end 2020 there are ISK 52,445 unallocated stock options and their average life is 521 days.

If an employee or contractor has not exercised the stock option within five years of signing or within two years of the employee ceasing to work for the Company, the stock option expires.

	Number of shares	Average redempt. price
The following table shows an analysis of stock options in the year 2020:		
Stock option agreements at the beginning of 2020 .....	66.529	330
Granted stock options during the year 2020 .....	15.788	285
Expired stock options during the year 2020 .....	( 15.504)	236
Canceled stock options during the year 2020 .....	( 24.960)	206
Stock option agreements at the end of 2020 .....	41.853	264

**10. Financial risk management**

**a. Overview**

The Company is exposed to various types of risk that are associated with the financial instruments and markets in which it operates. The most important types of financial risk to which the Company is exposed from are:

- \* credit risk, see b.
- \* liquidity risk, see c.
- \* market risk (currency risk, interest rate risk), see d.
- \* operational risk, see e.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management. The Board has commended the Managing Director's day to day developing and monitoring of the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Furthermore, the goal is to manage risk effectively and risk management is based on the risk being in accordance with the Company's willingness to take risks, thus contributing to increased stability and long-term profitability. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**b. Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company does not lend to its customers. The Company's outstanding trade receivables at the end of 2020 are credit card receivables. The Company's cash is stored in accounts with Arion Bank and PayPal.

*Largest possible loss on financial assets*

The Company's largest possible loss due to financial assets is their book value, which was as follows on the reporting

Trade and other receivables are specified as follows:	31.12.2020	31.12.2019
Trade and other receivables .....	7.772	28.723
Largest possible loss on trade and other receivables .....	7.772	28.723
Cash and cash equivalents .....	58.963	113.737
Largest possible loss on financial assets .....	66.734	142.460

## Notes continuing:

### *Impairment on receivables*

The age of trade receivables and its impairment was as follows at the end of the quarter:

	Nominal value		Impairment	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Not yet due .....	7.772	28.723	0	0
Total trade receivables .....	7.772	28.723	0	0

The majority of financial assets within the impairment model of IFRS 9 are bank deposits, and it is the opinion of management that they carry insignificant credit risk. Credit risk on trade receivables and other short-term receivables is also assessed as insignificant, as the majority of them are credit card receivables. It is therefore the opinion of the management that the effect of credit risk as a whole is insignificant for the Financial Statements and no write-down is recognized due to credit risk of financial assets.

### c. *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities as they fall due and thus avoid damaging the Company's reputation.

The breakdown by contractual maturity, including expected interest payments, are as follows:

December 31, 2020	Book value	Contractual cash flow	Within one year	1-5 years	Over 5 years
Lease liabilities .....	14.029	15.105	5.088	8.942	0
Accounts payables .....	405	405	405	0	0
Related party liabilities .....	200	200	200	0	0
Other payables .....	9.309	9.309	9.309	0	0
Total financial liabilities ...	23.943	25.019	15.002	8.942	0

## Notes continuing:

December 31, 2019	Book value	Contractual cash flow	Within one year	1-5 years	Over 5 years
Interest bearing debt .....	19.228	21.624	5.703	13.525	0
Accounts payables .....	1.994	1.994	1.994	0	0
Related party liabilities .....	214	214	214	0	0
Other payables .....	12.815	12.815	12.815	0	0
Total financial liabilities ...	34.252	36.647	20.727	13.525	0

### d. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### Currency risk

The Company is exposed to currency risk due to purchases and borrowings in currencies other than ISK. The currencies that mainly create exchange rate risk are the euro (EUR) and the USD.

The Company does not specifically hedge against exchange rate risk through forward contracts. Management regularly reviews the Company's currency risk with the aim of limiting it as much as possible.

The breakdown of assets and liabilities in foreign currency is as follows:

December 31, 2020	EUR	USD	Total
Cash and cash equivalents .....	37.980	14.947	52.927
Net currency risk .....	37.980	14.947	52.927

December 31, 2019	EUR	USD	Total
Receivables .....	16.039	12.685	28.723
Cash and cash equivalents .....	15.882	2.618	18.500
Net currency risk .....	31.920	15.303	47.223

The exchange rates of the major currencies during the years 2020 and 2019 were as follows:

	Average exchange rate		Period-end exchange rate	
	Year 2020	Year 2019	31.12.2020	31.12.2019
EUR .....	154,52	137,68	156,10	135,83
USD .....	135,27	122,94	127,21	121,10

## Notes continuing:

### *Sensitivity analysis*

A 10% strengthening of the ISK against the following currencies on December 31, 2020 would have increased (decreased) the Company's equity and profit before income tax by the following amounts. The analysis is based on all other variables remaining unchanged.

	31.12.2020	31.12.2019
EUR .....	3.798	3.192
USD .....	1.495	1.530

The 10% weakening of the ISK against the above-mentioned currencies would have had the same effect but in the opposite direction, provided that all other variables had remained unchanged.

### e. *Operational risk*

Operational risk is the risk of direct or indirect loss that may occur due to a number of factors in the Company's operations, its staff work, technology and organization, inadequate or defective internal processes, and external factors other than credit, market and liquidity risk, such as due to changes in laws and general attitudes towards corporate governance. Operational risk arises for everyone the Company's operations.

It is the Company's policy to manage operational risk in an efficient manner in order to avoid financial losses and to protect its reputation, while ensuring that the rules of procedure do not limit the initiative and creativity of employees.

In order to reduce operational risk, the Company has taken various measures. Appropriate job separation has been established, the Company has emphasized good working conditions, emphasized cost analysis, planning and monitored business and compliance with the law, conducted regular risk assessments, trained employees, organized work processes and more.

## 11. **Related parties**

### *Identity of related parties*

The Company has a related party relationship with its shareholders with significant influence, companies owned by them and with its directors and executive officers and their spouses and dependent children.

### *Transactions with management and key personnel*

Reference is made to note 5 on salaries and benefits for the Company's board and management.

Solid Clouds ehf. has leased premises from two shareholders who own a total of less than 2% in the Company. Rental payments amounted to ISK 7,7 million in the year 2020 and ISK 7,3 million in the year 2019.

In the year 2020, the Company has purchased equipment in the amount of ISK 1,0 million from a member of the Company's deputy board.

<b>Related party balances:</b>	31.12.2020	31.12.2019
Related party balance at year-end .....	200	214

## 12. Transfer from IS GAAP to IFRS

The Financial Statements are prepared for the first time in accordance with International Financial Reporting Standards (IFRS), as stated in note 2a on accounting policies. The Company's implementation date is January 1, 2019, so the opening Balance Sheet on December 31, 2018 reflect the effects of IFRS. The comparative amounts have been prepared in a similar way and are therefore reproduced from those previously prepared in accordance with the Icelandic Annual Accounts Act.

The accounting policies in note 3 have been applied in preparing the Financial Statements for the year 2020, the comparative information for the year ended 31 December 2019 and the preparation of an opening IFRS Balance Sheet at 1 January 2019 (the Company's date of transition).

Amounts in the opening Balance Sheet of 1st of January 2019 have been changed in accordance with IFRS, but were previously presented in accordance with Icelandic generally accepted accounting principles ("Icelandic GAAP"). An explanation on how the transition from Icelandic GAAP to IFRSs has affected the Company's financial position and financial performance is set out in the following tables and notes that accompany the tables. There are no significant changes to the Company's cash flows from Icelandic GAAP to IFRS.

<b>Changes in equity from Icelandic GAAP to IFRS:</b>	<b>Equity</b>
Equity according to Icelandic GAAP at 31 December 2018 .....	360.932
Equity according to IFRS at 1 January 2019 .....	359.778
<b>Changes from Icelandic accounting policies to IFRS</b>	<b>1.153</b>

### Changes at the beginning of year 2019:

Advertising and marketing costs expensed (previously capitalized on development costs) .....	1.063
Insurance fee for stock option agreements .....	90
<b>Total changes due to IFRS at 1 January 2019</b>	<b>1.153</b>

### Changes in loss for the year 2019:

Advertising and marketing costs expensed (previously capitalized on development costs) .....	34.754
Expensed salary due to stock option agreements .....	559
Insurance fee for stock option agreements .....	34
Rent reversed, right-of use asset and lease liability registered .....	( 6.394)
Interest expenses on lease liability expensed .....	1.069
Depreciation of a right-of use asset .....	5.758
<b>Total changes due to IFRS on the year 2019, see further on next page</b>	<b>35.780</b>
<b>Changes from Icelandic GAAP to IFRS</b>	<b>36.933</b>

## Notes continuing:

Total effects of the transition to IFRSs is an increase in equity amounting to ISK 36,9 million.

The following tables show an overview of the transition to IFRS and is divided into changes in estimates and changes in presentation.

### Income statement for the year 2019, changes from previous GAAP to IFRS

	<b>Icelandic GAAP</b>	<b>Changes in estimates</b>	<b>Changes in presentation</b>	<b>Restated acc. to IFRS</b>
Sales .....	21.437			21.437
Government grants .....	64.192			64.192
Capitalized development cost .....			( 85.628)	( 85.628)
Purchased design work .....	( 49.939)			( 49.939)
Salaries and related expenses .....	( 129.422)	( 593)		( 130.015)
Other operating expenses .....	( 68.914)	6.394		( 62.520)
Capitalized development cost .....	159.569	( 34.754)	85.628	210.443
Depreciation .....	0	( 5.758)		( 5.758)
Interest income .....	2.564			2.564
Interest expense .....	( 124)	( 1.069)		( 1.193)
Loss for the year	( 637)	( 35.780)	0	( 36.417)

See explanation of change in loss for the year in table on page 19.

## Notes continuing:

### Restated Balance Sheet December 31, 2019

<i>Assets</i>	<b>Original acc. to IS GAAP</b>	<b>Corrections rel. to devel. cost</b>	<b>Other corrections</b>	<b>Restated acc. to IFRS</b>
<i>Non-current assets</i>				
Intangible assets .....	431.134	( 35.817)		395.317
Right of-use assets .....			18.795	18.795
<b>Total non-current assets</b>	<b>431.134</b>	<b>( 35.817)</b>	<b>18.795</b>	<b>414.112</b>
<i>Current assets</i>				
Trade receivables .....	15.773		( 15.773)	0
Other receivables .....	12.950		15.773	28.723
Cash and cash equivalents .....	113.737			113.737
<b>Total current assets</b>	<b>142.460</b>	<b>0</b>	<b>0</b>	<b>142.460</b>
<b>Total assets</b>	<b>573.595</b>	<b>( 35.817)</b>	<b>18.795</b>	<b>556.573</b>
<i>Equity</i>				
Share capital .....	1.948			1.948
Share premium .....	634.259			634.259
Restricted equity .....	271.565	123.752		395.317
Stock option agreements .....			2.035	2.035
Accumulated deficit .....	( 349.077)	( 159.569)	( 2.592)	( 511.239)
<b>Total equity</b>	<b>558.695</b>	<b>( 35.817)</b>	<b>( 557)</b>	<b>522.321</b>
<i>Non-current liabilities</i>				
Lease liabilities .....	0		13.525	13.525
<b>Total non-current liabilities</b>	<b>0</b>	<b>0</b>	<b>13.525</b>	<b>13.525</b>
<i>Current liabilities</i>				
Lease liabilities .....	0		5.703	5.703
Trade payables .....	1.994			1.994
Payables to related parties .....	214			214
Other payables .....	12.691		124	12.815
<b>Total current liabilities</b>	<b>14.899</b>	<b>0</b>	<b>5.827</b>	<b>20.727</b>
<b>Total liabilities</b>	<b>14.899</b>	<b>0</b>	<b>19.352</b>	<b>34.252</b>
<b>Total equity and liabilities</b>	<b>573.595</b>	<b>( 35.817)</b>	<b>18.795</b>	<b>556.573</b>

See explanation of change in the Balance Sheet on page 19 and 20.



## Notes continuing:

### Restated Balance Sheet January 1, 2019

<i>Assets</i>	<b>Original acc. to IS GAAP</b>	<b>Corrections rel. to devel. cost</b>	<b>Other corrections</b>	<b>Restated acc. to IFRS</b>
<i>Non-current assets</i>				
Intangible assets .....	271.565	( 1.063)		270.502
Right of-use assets .....	0		24.062	24.062
<b>Total non-current assets</b>	<b>271.565</b>	<b>( 1.063)</b>	<b>24.062</b>	<b>294.564</b>
Trade receivables .....	3.223			3.223
Other receivables .....	2.655			2.655
Cash and cash equivalents .....	95.778			95.778
<b>Total current assets</b>	<b>101.657</b>	<b>0</b>	<b>0</b>	<b>101.657</b>
<b>Total assets</b>	<b>373.222</b>	<b>( 1.063)</b>	<b>24.062</b>	<b>396.221</b>
<i>Equity</i>				
Share capital .....	1.628			1.628
Share premium .....	436.179			436.179
Restricted equity .....	271.565	( 1.063)		270.502
Stock option agreements .....			1.476	1.476
Accumulated deficit .....	( 348.441)		( 1.566)	( 350.007)
<b>Total equity</b>	<b>360.932</b>	<b>( 1.063)</b>	<b>( 90)</b>	<b>359.778</b>
<i>Non-current liabilities</i>				
Lease liabilities .....	0		18.737	18.737
<b>Total non-current liabilities</b>	<b>0</b>	<b>0</b>	<b>18.737</b>	<b>18.737</b>
<i>Current liabilities</i>				
Lease liabilities .....	0		5.325	5.325
Other payables .....	12.290		90	12.380
<b>Total current liabilities</b>	<b>12.290</b>	<b>0</b>	<b>5.415</b>	<b>17.705</b>
<b>Total liabilities</b>	<b>12.290</b>	<b>0</b>	<b>24.152</b>	<b>36.442</b>
<b>Total equity and liabilities</b>	<b>373.222</b>	<b>( 1.063)</b>	<b>24.062</b>	<b>396.221</b>

See explanation of change in the Balance Sheet on page 19 and 20.

# Specifications

	2020	2019
<b>Development cost</b>		
Game design .....	4.784	8.586
Transport .....	11	244
Image Processing .....	21.223	20.142
Software .....	55.997	20.967
	<u>82.015</u>	<u>49.939</u>
<b>Salaries and related expenditures</b>		
Salaries .....	114.666	106.924
Mandatory social security contribution .....	8.481	8.260
Pension funds .....	13.681	13.165
Accrued leave .....	514	1.157
Other union funds .....	577	508
	<u>137.918</u>	<u>130.015</u>
<b>Other operating expenses</b>		
Phones and internet connection .....	2.296	1.941
Books and papers .....	87	80
Paper, printing and other office supplies .....	126	63
Computerized IT systems .....	4.396	1.240
Accounting services .....	807	592
Legal services .....	290	320
Purchased services .....	4.233	6.139
Travel expenses .....	195	1.301
Meetings and conferences .....	4.878	2.165
Advertising and marketing costs .....	35.506	34.718
Insurance .....	0	25
Grants and gifts .....	26	0
Rental charge .....	1.399	949
Maintenance of office .....	240	63
Cleaning products .....	635	576
Per diem .....	3.600	2.870
Transportation cost .....	297	327
Car gasoline .....	5.583	5.287
Tools and equipment, charged .....	1.582	150
Tools and equipment, maintenance .....	48	683
Coffee and related reception expenses .....	2.321	945
Staff training and conferences .....	0	1.713
Other staff related costs .....	314	74
Membership fees .....	46	56
Bank cost .....	29	205
Mandatory fee to RÚV (national radio) .....	18	35
	<u>68.952</u>	<u>62.520</u>

## Specifications, continued:

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Other payables:	2020	2019
Unpaid salary .....	393	624
Pension funds .....	17	1.514
Vacation commitment .....	8.416	7.902
Employee taxes .....	0	2.634
Unpaid because of employees .....	286	124
Government charges .....	18	18
Miscellaneous .....	178	0
	<hr/>	<hr/>
	9.309	12.815
	<hr/>	<hr/>